BEFORE THE CALIFORNIA ENERGY COMMISSION &
THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Design of the New Solar Homes Partnership and Order Instituting Rulemaking Regarding Policies, Procedures and Rules for California Solar Initiative, the Self-Generation Incentive Program and Other Distributed Generation Issues	))))))	Energy Commission Docket No. 06-NSHP-1 California Public Utilities Commission Rulemaking 06-03-004

JOINT COMMENTS OF BAY AREA LOCAL INITIATIVES SUPPORT CORPORATION (LISC) AND THE NONPROFIT HOUSING ASSOCIATION OF NORTHERN CALIFORNIA (NPH) ON THE CALIFORNIA SOLAR INITIATIVE AND NEW SOLAR HOMES PARTNERSHIP: AFFORDABLE HOUSING

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INTRODUCTION

Background on Bay Area Local Initiatives Support Corporation (LISC):

Local Initiatives Support Corporation (LISC) is a national nonprofit 501(c)3 organization with a local focus, which is represented by thirty-two field offices across the country. Since 1981, Bay Area LISC has partnered with community development organizations to transform distressed communities and neighborhoods into healthy ones – good places to live, do business, work, and raise families. We have built the field of affordable housing by providing nonprofit community developers with the skills, information, and financial support they need to be effective agents of change. Bay Area LISC has broad-based expertise in affordable housing, community economic development, commercial revitalization, organizational development and energy efficiency and green development.

Bay Area LISC's Green Connection program promotes energy efficient and green affordable housing through technical assistance, trainings, grants, financing, and policy support. Since 2002, we have been helping multifamily affordable housing properties to become more energy efficient. By collaborating with a partnership of organizations through a Public Goods Charge-funded program called "Energy Action", we have served for the past four years as a clearinghouse, providing trainings, funding resources, contractor referrals and other information, as well as policy support and financing to affordable housing providers throughout California. In 2005, we expanded Green Connection beyond energy efficiency to include the broader elements of green building. We are currently partnered with Build It Green (a nonprofit organization promoting green building throughout the construction industry) to deliver resources and services for green affordable housing, as well as the U.S. Department of Housing and Urban Development (HUD) to provide energy efficiency and sustainable energy technical assistance for HUD-assisted multifamily affordable housing properties.

Background on Non-Profit Housing Association of Northern California (NPH):

Since 1979, NPH has been the collective voice of those who support, build and finance affordable housing. NPH promotes the proven methods of the non-profit sector and focuses government policy on housing solutions for low-income people who suffer disproportionately from the housing crisis.

From the beginning, NPH has been instrumental in strengthening the local, regional and statewide movement on affordable housing and supportive services. Since 1979, the NPH membership has grown steadily to include individual activists, local governments, affordable housing development corporations, leading financing institutions, environmental non-profits, faith-based organizations and community development corporations. Today NPH has more than 600 members.

In addition to its advocacy work, NPH offers professional training, networking opportunities, and resources for housing policy analysts, advocates and activists.

NPH is a 501(c)3 not-for-profit public benefit corporation of California.

Purpose of Joint Comments:

LISC and NPH are pleased to have the opportunity to provide joint comments in response to the joint CPUC-CEC workshop held on June 13, 2006, regarding solar resources for the affordable housing community. As partners and trusted advocates, LISC and NPH collaborate on a variety of topics, in an effort to build the affordable housing field and create a unified voice in responding to policies that impact the community.

Having participated in the recent joint workshop on solar and affordable housing, we applaud the Commissions' thoughtful planning – which included presentations from a variety of stakeholders – and special consideration of the energy needs, as well as particular challenges, of the affordable housing field. We were encouraged by the Commissions' willingness to not view solar and energy efficiency as mutually exclusive, but instead to look at the issues comprehensively to create incentives that encourage both energy efficiency and solar in affordable housing. Thus, it is with gratitude and enthusiasm for this process that we submit the following joint comments, which are focused on both the solar and energy efficiency needs specific to multifamily, affordable rental housing.

1. <u>CHALLENGES OF AFFORDABLE HOUSING IN CALIFORNIA</u>

As was noted during the joint workshop, affordable housing in California is both a complex and constrained field. Developers often utilize multiple lenders in complicated financing structures to make affordable housing deals work. Further, existing multifamily affordable housing projects subsist on restricted rents and constrained budgets that often leave too little in reserve funds. An additional issue is the prevalence of older technology and antiquated, inefficient systems in existing affordable housing. While we do not expect an incentive to overcome all of the barriers inherent to affordable housing, we offer the following list of challenges to elucidate the context in which a successful incentive must operate.

New Construction: New construction affordable housing projects are typically faced with the following challenges:

- **Long Development Processes:** A typical new construction affordable housing project takes three to five years to design and construct.
- **Multiple Lenders:** Projects often need up to ten separate lenders and investors to make the deals work. This results in complex financing structures, layered requirements, and a plethora of stakeholders to contend with.
- **Blueprint Approach:** Since non-profit developers operate on a relatively small scale, and do not have in-house expertise in energy efficient design they tend to standardize and continue to use a similar, "blueprint" approach to each new project. This results in a slowness to adopt new energy efficient technologies.
- **Rising Construction Costs:** It is becoming increasingly difficult to build affordable housing because of construction expenses. Since projects take several years to develop, rising construction costs can threaten a project's financial viability. It also tempts affordable housing developers to choose lighting and HVAC systems with lower first costs, even when the long-term costs of operations will be higher.

Existing Properties: Existing multifamily affordable housing properties deal with a multitude of operational issues, such as:

- **Scarce Financial Resources:** Existing properties have restricted rents, which means that they often cannot impose rent increases when costs increase or capital improvement needs arise. What little replacement reserves they have can often be quickly exhausted by unforeseen emergencies.

- **Overburdened Staff:** This applies to all levels within an organization, but particularly to property and asset managers (those who make the budget decisions and project approvals), as well as maintenance staff (who are often relied upon to either install or maintain systems). This results in reactionary behavior, where only the most immediate issues are given priority, and leaves little time for proactive measures..
- **Layered Bureaucratic Processes:** Affordable housing is a highly regulated field, such that extensive documentation and several layers of approvals are often required before a project can move forward. This hampers pro-active capital improvements, and can result in an attitude of "if it ain't broke, don't fix it".
- **Untrained and Unfamiliar Staff:** Lack of training and staff turnover make it difficult for staff to maintain installed energy upgrades efficiently. It also makes it difficult for staff to provide contractor oversight, in the event that measures are not installed by in-house staff.
- **Split Incentives:** This term refers to the fact that, in most properties, the tenants pay their own utility bills but the property owner owns the energy-using equipment. Because the property owner does not pay the bills for the tenant units, s/he has no financial incentive to make energy efficiency or solar upgrades because s/he will not realize any of the direct cost savings. While many nonprofit, mission-driven owners still choose to make the financial investment in tenant-metered units because they believe in benefiting tenants, the majority of properties lack the capital to make upgrades throughout their properties, especially if they are not going to directly benefit from that investment.
- **Budget Cycle Timelines:** The budgets for affordable housing properties are often approved by multiple regulators, well in advance of the budget year, such that they have a very limited ability to respond to unforeseen costs during the middle of a budget cycle. Further, since most operating budgets

are on an annual cycle, if an energy efficiency or solar project is proposed during the middle of the cycle, properties must often wait until the following cycle year to schedule any costs related to the project into the budget. This prevents properties from taking advantage of incentive programs with brief application windows.

- **Distrust for Utilities:** Many affordable housing properties have experienced customer service problems, as well as rate issues and problematic energy efficiency upgrades provided by utilities. Further, the plethora of PGC-funded third party contractor programs in recent years often creates a bombardment of property staff and administrators. With so much information, and so little time to digest and research resources, affordable housing staff is often overwhelmed and distrustful of being contacted by utilities and third party contractors marketing new services.

2. PROGRAM IMPLEMENTATION ISSUES

In addition to the general challenges inherent to affordable housing, there are several specific program implementation issues that must be overcome in a successful incentive program. They include:

- **Sub-Metering:** Most of the affordable housing projects utilizing solar have systems installed only for the common areas (operating on the house meter). This is because of the split incentive issue for tenant-metered facilities, as well as regulatory issues that currently prevent a property owner (even if s/he was to overcome the split incentive) from generating power from a solar installation and then directing or sub-metering it to individual tenant-metered units. For solar installations to truly have a direct impact on tenants, this regulatory challenge must be overcome.
- **Lengthy Approval Processes for Incentives:** Particularly for new construction affordable housing projects, any kind of process delay can mean equity loss. Since the financing is complicated, the sooner a project is approved for an incentive, the better.

- **Lack of Reliable Contractors:** While this seems to be an issue relevant in any sector, affordable housing properties are particularly vulnerable to unprofessional contractors. If the work is not done correctly, staff becomes additionally distrustful and increasingly unlikely to want to engage in future energy upgrade projects.
- **Program Implementation in Existing Properties:** As aforementioned, existing affordable housing properties have specific challenges which also apply to program implementation:
    - **Limited Reserves:** Existing properties do not have the same financing options that new construction projects do. Further, existing properties have very limited reserve funds and are hard-pressed to incur high first costs.
    - **Existing Debt Burden:** The lenders to an existing project do not typically allow for additional debt to be assumed by the property, particularly if it changes the order in which lenders are repaid.
    - **Lack of Energy Efficiency:** Much work is required to make the existing affordable housing sector more energy efficient in California[1]. While this issue was starkly illuminated during the California energy crisis several years ago, rising energy costs are continual threats to both the preservation of existing affordable housing as well as the development of new construction projects. Because of the various aforementioned constraints (fixed rents, regulations, administrative processes, and lack of capacity) that are inherent in the affordable housing field, most existing properties have not upgraded their antiquated systems to more energy efficient equipment. In addition, these properties are sometimes unaware of the low-to-no-cost

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[1] A recent final report by the California Energy Commission noted that 17 to 35 GWh could be saved from energy efficiency improvements to the multifamily, affordable housing sector ("Options for Energy Efficiency in Existing Buildings", Staff Final Report, California Energy Commission, December 2005).

measures and the cost effective, long-term investments that they could make to save energy and reduce their utility bills.

- **Maintenance Issues:** Properly maintaining energy efficiency and solar installations in affordable housing is a challenge. That fact that many staff are unfamiliar with new technologies, combined with high turnover rates for maintenance staff, it is difficult for knowledge transfer of these technologies to naturally take place. Yet it is essential, as any public incentive for energy efficiency or solar is only as good as the installation's successful performance over time – which is only guaranteed through proper maintenance practices.

3. <u>IMPLEMENTATION STRATEGIES</u>

Despite the challenges, we believe that it *is* possible to craft a successful incentive for solar installations in affordable housing. The incentives we propose below consider all of the challenges affordable housing developers face and are thus crafted to accommodate the specific needs of affordable housing. Incentives designed for market rate housing should look much different than ones for affordable housing, as market rate developers deal with only a fraction of the bureaucracy of affordable housing. Further, incentives for new construction affordable housing should also be different than ones for existing affordable housing, since existing properties are more financially constrained. Incentives for affordable housing will be most effective if they are coordinated with existing affordable housing programs and do not entail additional burdensome bureaucracy. We view the following elements as essential components of a successful affordable housing solar incentive program:

1. **Create set asides.** We understand that the currently proposed structure of the California Solar Initiative includes a set aside for affordable housing and that the currently proposed structure for the New Solar Homes Partnership does not. We strongly recommend earmarking a specific set aside for affordable housing. This is because, in our experience, affordable housing cannot compete with other sectors applying for incentives. This is particularly evident from the energy efficiency incentives funded through the Public Goods Charge. Very few of these incentives

are actually utilized by affordable housing. An affordable housing set aside for solar would ensure that the field has adequate access to funds.

2. **Provide the highest incentive levels possible.** Incentives for solar in affordable housing only leverage the public's existing investment to the field. Thus, the more funding provided the better. We strongly recommend a rebate level of at least 75 percent for existing affordable housing properties, as anything less will not be adequately covered by meager property reserves.

3. **Provide a variety of incentives.** Because of the complexity and cost of solar installations for affordable housing, multiple funding sources will ensure the greatest effectiveness. A combination of housing tax credits, rebates, and low-interest financing are crucial for projects. While rebates are the most preferred incentive, a variety of options, including low-interest loans, will assist a number of properties (including both new construction and existing properties) with multiple funding needs.

4. **Encourage alternative funding models.** Business tax credits, third party-owned systems, and springing liens are a few examples of the alternative ways in which affordable housing projects (particularly existing properties) with constrained resources can fund solar installations. We highly recommend the encouragement of creative financing to achieve the highest level of implementation.

5. **Improve energy efficiency incentives and connect them to solar incentives.** There are tremendous resource conservation opportunities that can be obtained from the multifamily affordable housing sector. Since affordable housing is already controlled and financed by public resources, it only makes sense to leverage additional public resources to ensure that the properties are operating as efficiently as possible. Further, it does not make any sense to incentivize solar installations on energy-guzzling buildings. Thus, we recommend that energy efficiency incentives be connected to solar incentives. Particularly in existing affordable housing properties, this means streamlining marketing, providing programs that are designed to be

direct-install, and eliminating the standard tests such as the free rider and double dipping issues that are truly not applicable to the affordable housing sector.

6. **Streamline application processes.** Most affordable housing projects – whether rehabilitation and capital improvements on existing properties or new construction projects – take several years to plan and execute. These projects are also highly complex to fund. Thus, any delayed or long approval processes for funding resources can cause significant problems for a project – especially if the approved amount is less than what was requested. Fast tracking affordable housing funding for solar installations is crucial to the financial well being and feasibility of these projects. We therefore recommend that the application approval process be expedited for affordable housing projects and that the reservation deadlines be extended to 30 to 36 months.

7. **Collaborate with trusted field advocates.** Effectively engaging this sector requires working with the organizations that have historically supported its development. In particular, advocates and intermediary community development organizations with extensive expertise in affordable housing financing, training, and management should be partnered with to ensure market reach and credibility for both new construction projects and existing properties. Further, these advocates could assist with marketing and therefore reduce program confusion. Finally, for new construction, the solar resources need to be linked to the typical housing application processes (i.e. TCAC, HCD, etc.).

8. **Encourage tiered utility allowances.** Tiered utility allowances are the only way to overcome the split incentive barrier for tenant-metered facilities. Standard utility allowances are deducted from allowable rent, and in most jurisdictions the utility allowance is not adjusted for energy efficient buildings or properties with solar installations. But tiered utility allowances, adopted by public housing authorities (with HUD approval), create an incentive (i.e. higher collectable rents) for the property owner that allows s/he to invest in energy efficiency and solar upgrades in tenant units. Additionally, they also provide direct savings (lower utility bills) to tenants.

9. **Provide capacity building support services.** Non-financial incentives are critical to affordable housing utilizing solar systems. Providing resources such as contractor/installer lists, consultant referrals, bulk purchasing programs, as well as resources for knowledge transfer, such as maintenance guides, trainings, and system performance monitoring, will ensure that solar is institutionalized in affordable housing.

CONCLUSION

While complex, connecting affordable housing to energy efficiency and solar is a win-win. It leverages public investment, reduces utility costs for low-income Californians, reduces demand on the State's utility resources, and ultimately reduces greenhouse gas emissions.

Because non-profit housing developers are mission-driven, most are open to green development practices that utilize sustainable methods, such as energy efficiency and solar, but often find it difficult to fund these methods. However, precedent has been set with the Tax Credit Allocation Committee's (TCAC) sustainability credits and several new construction projects have taken advantage of solar and energy efficiency. But there is still much work to be done.

Creating the right mix of incentives to successfully reach this sector is challenging, but possible. We hope that the feedback from the recent joint workshop, combined with written comments, will equip the Commissions with the right information to craft the necessary resources for this dynamic sector.

Respectfully Submitted,

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